Treasury Position on IFC Investment in Coastal Gujarat Power Limited
April 8, 2008

The U.S. supports the Coastal Gujarat Power Limited project based on the IFC's financial additionality and the project's potential development impact, given the size of the electricity supply gap in India and the long lead time for projects of this nature. However, we find IFC's arguments for environmental additionality less compelling.

India clearly faces an energy deficit. We also note that the regions served by the Coastal Gujarat Power project face electricity shortages of up to 19 percent of demand and peak power shortages of up to 30 percent. The project, as we understand it, will add 3 percent to total generation capacity and will benefit an estimated 16 million customers. The project will have a direct impact on job creation, generating an estimated 5,000 jobs during construction and another 700 during operation. In addition, the tariff structure offers cost competitive electricity to industry and agriculture, supporting potential increases in output and further contributing to growth and job creation.

IFC participation is warranted based on the risks associated with the scale of project financing required. We acknowledge that while local banks are willing to participate in the project, they cannot provide the full level of required financing. We are pleased to see that the Asian Development Bank, Korea EXIM, and Korea Export Insurance Corperation will provide additional financing. While we would have liked to have seen syndicated B loans serving to "crowd in" other private sector financing, we understand that international commercial banks were reluctant to provide sufficient tenors. Nonetheless, we recognize the potential demonstration effect of this investment. With appropriate financing and risk structures, subsequent ultra mega power projects may draw the interest of private investors even without the participation of the IFC.

IFC financing may be needed due to the overall capital cost and investment risks associated with India's power sector, but we are not swayed by the arguments in the project document that IFC's involvement will result in reduced GHG emissions relative to no IFC involvement. And in terms of technology choice, we understand that the Government of India was prepared to adopt supercritical technology even without IFC participation. On a lifecycle basis, a 4000 MW supercritical plant would be less expensive than a comparably-sized sub-critical plant. The recent run up of international coal prices further underscores the advantages of more efficient supercritical technology over sub-critical plants.

With respect to power options with lower emissions than supercritical technology, the issue is one of timing. According to the project document, India does not have such power supply alternatives that can be deployed on the same scale and in the timeframe envisioned for this project. India's choice to proceed with its Ultra Mega Power Project (UMPP) program represented an improvement over prior technology deployed in India, although these projects may not employ today's cleanest technology.

IFC engagement on this project pre-dated the recently developed World Bank low carbon strategy. Looking ahead, however, we encourage World Bank Group management to make a greater effort to leverage its support for future power generation projects to achieve reductions in carbon emissions relative to the level of emissions that would have occurred in the absence of Bank support.

Finally, we appreciate the disclosure of environmental assessment documents associated with this project. We would urge the IFC to work with the project sponsors to ensure similar disclosure practices if the expansion of the coal unloading facilities at the port turns out to have the potential for significant environmental impacts.